

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Alcona County Road Commission	County Alcona
Audit Date 12/31/04	Opinion Date 6/23/05	Date Accountant Report Submitted to State: 8/19/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name)

Anderson, Tackman & Company, PLC

Street Address 16978 S. Riley Avenue	City Kincheloe	State MI	ZIP 49788
Accountant Signature <i>Anderson Tackman & Co PLC</i>			Date 8/19/05

ALCONA COUNTY ROAD COMMISSION

BASIC FINANCIAL STATEMENTS

For the Year Ended December 31, 2004

ALCONA COUNTY ROAD COMMISSION

BOARD OF COUNTY ROAD COMMISSIONERS

Richard Karsen, Sr.
Chairman

Everett Schram
Vice Chairman

Alfred Scully
Member

Ron Young, P.E.
Engineer/Manager

Patricia Whaley
Clerk

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Statement of Net Assets	9
Statement of Activities.....	10
Balance Sheet.....	11
Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Assets	12
Statement of Revenues, Expenditures, and Changes in Fund Balance	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities.....	14
Fiduciary Fund:	
Statement of Fiduciary Net Assets.....	15
Statement of Changes in Fiduciary Net Assets.....	16
Notes to Financial Statements.....	17
Supplemental Information:	
Budgetary Comparison Schedule:	
Statement of Revenues.....	30
Statement of Expenditures	31
Analysis of Changes in Fund Balances.....	32
Analysis of Revenues.....	33
Analysis of Expenditures	34

TABLE OF CONTENTS (CONTINUED)

Report on Compliance:

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements in Accordance with <i>Government Auditing Standards</i>	35
Schedule of Findings	37
Schedule of Expenditures of Federal Awards.....	39



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMA, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

INDEPENDENT AUDITOR'S REPORT

Board of County Road Commissioners
Alcona County
301 N. Lake Street
Lincoln, MI 48742

We have audited the accompanying financial statements of the governmental activities and the major fund of the Alcona County Road Commission (a component unit of the County of Alcona, Michigan) as of and for the year ended December 31, 2004, which collectively comprise the Commission's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Alcona County Road Commission as of December 31, 2004, and the respective changes in financial position, were applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Alcona County Road Commission implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments* as of January 1, 2004. This results in a change in the format and content of the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2005 on our consideration of the Alcona County Road Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management’s Discussion and Analysis on page 3 and budgetary comparisons are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Alcona County Road Commission’s basic financial statements. The schedules listed as supplementary are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is also presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Anderson, Tackman & Company, PLC
Certified Public Accountants

June 23, 2005

Management's Discussion and Analysis

Using This Annual Report

The Alcona County Road Commission's Management's Discussion and Analysis is designed to: (a) assist the reader in focusing on significant financial issues; (b) provide an overview of the road commission's financial activity; (c) identify changes in the road commission's financial position (its ability to address the next and subsequent year challenges); (d) identify any material deviations from the approved budget; and (e) identify any issues or concerns.

Reporting the Road Commission as a Whole

The statement of net assets and the statement of activities report information about the road commission as a whole and about its activities in a way that helps answer the question of whether the road commission as a whole is better off or worse off as of a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method, used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the road commission's net assets and the changes in them. The reader can think of the road commission's net assets (the difference between assets and liabilities) as one way to measure the road commission's financial health or financial position. Over time, increases or decreases in the road commission's net assets are one indicator of whether its financial health is improving or deteriorating.

Reporting the Road Commission's Major Fund

Our analysis of the road commission's major fund begins on page 11. The fund financial statements begin on page 30 and provide detailed information about the major fund. The road commission currently has only one fund, the general operations fund, in which all of the road commission's activities are accounted. The general operations fund is a governmental fund type.

- Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the road commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the road commission's services. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental fund in a reconciliation following the fund financial statements.

The Road Commission as a Whole

The road commission's net assets increased approximately 39% from \$1.8 million to \$3.01 million for the year ended December 31, 2004. The net assets and change in net assets are summarized below.

It is important for the reader to realize that the increase in net assets is largely a result of the road commission electing to report infrastructure assets (assets acquired in 2004). Infrastructure provisions of GASB 34 have been implemented in the current year.

Net assets as of the year ended December 31, 2004 follows:

	<u>Governmental Activities</u>
Current and Other Assets	\$ 1,848,007
Capital Assets	<u>2,939,675</u>
Total Assets	<u>4,787,682</u>
Current Liabilities	778,977
Long-Term Obligations	<u>916,764</u>
Total Liabilities	<u>1,695,741</u>
Net Assets	
Invested in Capital Assets	2,020,864
Unrestricted	<u>1,071,077</u>
Total Net Assets	<u><u>\$ 3,091,941</u></u>

A summary of changes in net assets for the year ended December 31, 2004 follows:

	<u>Governmental Activities</u>
Program Revenues	
Charges for Services	\$ 570,441
Operating Grants	2,817,022
Contributions	615,773
Interest Income and Other	18,962
General Revenues	
Loss on Disposals	(13,166)
Special Assessments	<u>100,185</u>
Total Revenues	<u>4,109,217</u>
Program Expenses	
Primary Roads	726,951
Local Roads	944,306
State Trunkline	
Maintenance	547,581
Net Equipment Expense	331,477
Administrative	272,134
Interest Expense and Other	<u>66,984</u>
Total Expenses	<u>2,889,433</u>
Increase in Net Assets	<u>\$ 1,219,784</u>

The Road Commission's Fund

The road commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County which are earmarked by law for road and highway purposes.

For the year ended December 31, 2004, the fund balance of the general operations fund decreased by \$94 thousand as compared to a decrease of \$8,900 in the fund balance for the prior year. Total revenues were \$4.1 million, a decrease of \$1.0 million as compared to last year. This change in revenues resulted primarily from prior year financing of \$570,000 and a decrease in federal funding.

Total expenditures were \$4.2 million, a decrease of \$1.0 million as compared to last year. This change in expenditures is primarily the decrease in capital outlay in the current year. The road commission incurred an increase to capital outlay last year due to significant equipment purchases.

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the road commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The revenue budget for 2004 was lower than the actual receipts by \$87,887. This was due, in a large part, to the projection of road participation by townships. Major improvements to county roads are undertaken on a cost participation basis with Alcona County's 11 townships. However, in setting the budget it is difficult to project what projects townships may wish to pursue in the coming year. However, State Trunkline Maintenance revenues exceeded the expected amount due to higher than anticipated winter maintenance expenses.

Road Commission expenditures were projected at \$4.5 million while actual expenditures were \$4.2 million. This resulted in total expenditures under budget by \$267 thousand. There were three items that account for most of the variance in the projection of the budget. A share of the variance is in the area of local road heavy maintenance. Expenditures for primary road heavy maintenance and routine maintenance were under budget as well. Road Commission staff projected that work in these two areas would be completed; however, weather and other factors combined to limit the amount of work that could be completed prior to year-end.

The major road improvement undertaken in 2004 was the reconstruction of Trask Lake Road from Stout Road to Sanborn Road (2 miles) in Barton City. This significant project was funded with a combination of Federal Surface Transportation funds and local contributions from Hawes and Millen Township.

In addition, the Board of Road Commissioners initiated a trial road preservation program and allocated \$10,000 to each of 11 townships for primary road preservation projects. With additional financial support from townships, this resulted in over 16 miles of sealcoat resurfacing on primary roads. This also led to 1.5 miles of reconstruction and asphalt surfacing on Stout Road in cooperation with Millen Township.

One of the major challenges faced by the Road Commission is the age of its maintenance garage in Lincoln. The Board of Road Commissioners has designated that \$5,000 per month be set-aside to establish a building fund to provide for future replacement of this facility.

Capital Asset and Debt AdministrationCapital Assets

As of December 31, 2004 (year end), the road commission had \$2,939,675 invested in capital assets as follows:

Capital Assets Not Being Depreciated	
Land and Improvements	\$ <u>709,545</u>
Other Capital Assets	
Buildings and Improvements	719,118
Road Equipment	4,356,199
Other Equipment	166,394
Depletable Assets	95,995
Infrastructure and Improvements	<u>869,286</u>
Total Capital Assets at Historic Cost	<u>6,206,922</u>
Total Accumulated Depreciation	<u>(3,976,862)</u>
Total Net Capital Assets	\$ <u>2,939,675</u>

Current year's major additions included the following (in thousands):

Buildings	\$ <u>6,745</u>
Land Improvements	\$ <u>617,856</u>
Various Resurfacing Projects	\$ <u>869,286</u>
Trucks/Equipment	\$ <u>182,667</u>

Debt

The road commission currently has long-term debt in the amount of \$1.2 million which represents bonded construction projects and installment purchase agreements for heavy equipment.

Economic Factors and Next Year's Budget

The Board of County Road Commissioners considered many factors when setting the fiscal year 2005 budget. One of the factors is the economy. The Road Commission derives approximately 70% of its revenues from the Michigan Transportation Fund or MTF. The MTF consists of state collected fuel taxes and vehicle registration fees. The portion of MTF that is distributed to county road commissions by the State of Michigan is based on such factors as mileage and population. Because of its limited population, Alcona County ranks 72nd of 83 counties in Michigan in MTF fund allocations. The recent economic downturn has resulted in less consumption of fuel and some diversion of MTF revenues to other Michigan Departments; consequently less Michigan Transportation Funds were available for distribution.

The Board realized, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Alcona County's 727 mile transportation system. Therefore, the Board attempts to manage the public's money wisely and equitably and in the best interest of the motoring public and the citizens of the County.

The major road improvement project planned for 2005 is reconstruction of Hubbard Lake Road from Ritchie Road to Mt Maria Road in cooperation with Hawes Township.

Additional road improvement projects are anticipated pending discussion with township officials.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the road commission's finances and to show the road commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Alcona County Road Commission administrative offices at 301 N. Lake Street, PO Box 40, Lincoln, Michigan 48742 or by phone 989-736-8168, or by email at Alcona00@chartermi.net.

Basic Financial Statements

Alcona County Road Commission

Statement of Net Assets December 31, 2004

ASSETS

Current Assets:

Cash and Equivalents	\$ 976,387
Accounts Receivable:	
Michigan Transportation Fund	404,568
Special Assessments	71,806
Due on County Road Agreements	58,280
Sundry Accounts	10,265
Trunkline Maintenance	77,061
Inventories:	
Road Materials	186,391
Equipment, Parts and Materials	63,249

Noncurrent Assets:

Capital Assets (Net of Accumulated Depreciation)	<u>2,939,675</u>
--	------------------

Total Assets	<u>\$ 4,787,682</u>
--------------	---------------------

LIABILITIES

Current Liabilities:

Accounts Payable	\$ 32,481
Due to Other Units	20,000
Accrued Liabilities	21,802
Advances from State	260,978
Deferred Revenue	201,782
Interest Payable	5,200
Bonds Payable	195,000
Installment Purchase Agreements Payable	41,734

Noncurrent Liabilities:

Vested Employee Benefits	239,887
Bonds Payable	195,000
Installment Purchase Agreements Payable	<u>481,877</u>

Total Liabilities	<u>1,695,741</u>
-------------------	------------------

NET ASSETS

Investment in Capital Assets -

Net of Related Debt	\$ 2,020,864
Restricted for County Road	<u>1,071,077</u>

Total Net Assets	<u>\$ 3,091,941</u>
------------------	---------------------

Alcona County Road Commission

Statement of Activities For the Year Ended December 31, 2004

Program Expenses	
Primary Road	\$ 726,951
Local Road	944,306
State Trunkline Maintenance	547,581
Net Equipment Expense	331,477
Net Administrative Expense	272,134
Other	13,115
Interest Expense	<u>53,869</u>
Total Program Expenses	<u>2,889,433</u>
Program Revenues	
License and Permits	17,211
Federal Grants	197,901
State Grants	2,619,121
Contributions from Local Units	615,773
Charges for Services	553,230
Investment Earnings and Other	<u>18,962</u>
Total Program Revenues	<u>4,022,198</u>
Net Program Revenues	<u>1,132,765</u>
General Revenue	
Special Assessment	100,185
Loss on Equipment Disposal	<u>(13,166)</u>
Total General Revenues	<u>87,019</u>
Change in Net Assets	1,219,784
Net Assets	
Beginning of Year	<u>1,872,157</u>
End of Year	<u>\$ 3,091,941</u>

Alcona County Road Commission

Balance Sheet
December 31, 2004

Governmental
Fund Type
General
Operating Fund

ASSETS

Cash and Equivalents	\$ 976,387
Accounts Receivable	
Michigan Transportation Fund	404,568
State Trunkline Maintenance	77,061
Special Assessment	71,806
Due on County Road Agreements	58,280
Sundry Accounts	10,265
Inventories	
Road Materials	186,391
Equipment, Parts, and Materials	<u>63,249</u>
Total Assets	<u>\$ 1,848,007</u>

LIABILITIES AND FUND EQUITY

Liabilities	
Accounts Payable	\$ 32,481
Accrued Liabilities	21,802
Due to Other Units	20,000
Deferred Special Assessments	118,166
Advances from State	260,978
Deferred Revenue	<u>201,782</u>
Total Liabilities	<u>655,209</u>
Fund Equities	
Fund Balance	
Unreserved and Undesignated	<u>1,192,798</u>
Total Fund Equities	<u>1,192,798</u>
Total Liabilities and Fund Equities	<u>\$ 1,848,007</u>

Alcona County Road Commission

Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Assets For the Year Ended December 31, 2004

Total Governmental Fund Balance	\$ 1,192,798
---------------------------------	--------------

Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	2,939,675
--	-----------

Other long-term assets are not available to pay for current period expenditures and therefore are not reported in the funds.	(1,153,498)
---	-------------

Interest expense accrual, due in following year.	(5,200)
--	---------

Assessments that were not considered available and earned in the governmental activities.	<u>118,166</u>
--	----------------

Net Assets of Governmental Activities	<u><u>\$ 3,091,941</u></u>
---------------------------------------	----------------------------

Alcona County Road Commission

Statement of Revenues, Expenditures, and Changes in Fund Balance For the Year Ended December 31, 2004

	General Operating Fund
Revenues	
License and Permits	\$ 17,211
Federal Sources	197,901
State Sources	2,619,121
Contributions from Local Units	615,773
Charges for Services	553,230
Interest and Rents	15,227
Other Revenue	<u>90,754</u>
Total Revenues	<u>4,109,217</u>
Expenditures	
Public Works	4,309,591
Capital Outlay	(391,326)
Debt Service	<u>285,036</u>
Total Expenditures	<u>4,203,301</u>
Excess of Revenues Over (Under) Expenditures	(94,084)
Fund Balance – January 1, 2004	<u>1,286,882</u>
Fund Balance – December 31, 2004	<u>\$ 1,192,798</u>

Alcona County Road Commission

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities For the Year Ended December 31, 2004

Net Change in Fund Balance – Total Governmental Funds	\$ (94,084)
---	-------------

Amounts reported for governmental activities in the statements are different because:

Governmental funds report capital outlays and infrastructure improvements as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	1,095,816
--	-----------

Repayment of notes/bonds payable is an expenditure in governmental funds, but reduces the long-term liabilities in the statement of net assets.	236,367
---	---------

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds.	<u>(18,315)</u>
--	-----------------

Change in Net Assets of Governmental Activities	<u>\$ 1,219,784</u>
---	---------------------

**Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2004**

	<u>Pension Trust Fund</u>
ASSETS:	
Cash & Investments	
Restricted	\$ <u>801,881</u>
 TOTAL ASSETS	 \$ <u>801,881</u>
NET ASSETS:	
Held in Trust for Pension Benefits	\$ <u>801,881</u>

**Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended December 31, 2004**

	<u>Pension Trust Fund</u>
ADDITIONS:	
Contributions:	
Employer	\$ <u>44,536</u>
Investment Earnings:	
Interest & Dividend Income	17,704
Net Appreciation Fair Value	<u>54,301</u>
Total Investment Earnings	<u>72,005</u>
Total Additions	<u>116,541</u>
DEDUCTIONS:	
Distributions of Benefits	<u>74,125</u>
Total Deductions	<u>74,125</u>
Change in Net Assets	42,416
Net Assets – Beginning of Year	<u>759,465</u>
Net Assets – End of Year	<u><u>\$ 801,881</u></u>

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Alcona County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Alcona County Road Commission.

Effective January 1, 2004, the Road Commission implemented the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Significant changes in the statement include the following:

- A Management’s Discussion and Analysis (MD&A) section providing an analysis of the Road Commission’s overall financial position and results of operations has been included with the financial statements.
- Financial statements prepared use full accrual accounting for all of the Road Commission’s activities, including infrastructure (roads, bridges, etc.)
- A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements).

A. Reporting Entity

The adoption of a county road system was authorized in 1909. The County Road Commission operates under a Board of County Road Commissioners of three (3) members which appoints a manager/engineer to administer the county road system. The Board of County Road Commissioners is elected biennially for the full term of six (6) years. The Road Commission services public roads throughout the County of Alcona, Michigan.

The Alcona County Road Commission was established pursuant to the County Road Law (MCL 224.1). The Road Commission may not issue debt without the County’s approval and property tax levies are subject to County Board of Commissioners’ approval.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, “The Financial Reporting Entity,” for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Alcona County Road Commission, a discretely presented component unit of Alcona County.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund moneys distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission Operating Fund.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Alcona County Road Commission. There is only one major fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt, or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

D. Assets, Liabilities, and Net Assets or Equity**Cash, Cash Equivalents and Investments**

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. All deposits are recorded at cost.

Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as used.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Alcona County Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB Statement 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. The Alcona County Road Commission has capitalized the current year's infrastructure, as required by GASB Statement 34, and has reported the infrastructure assets in the statement of net assets.

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Building	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Department	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure – Roads	8 to 30 years
Infrastructure – Bridges	12 to 50 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the operating fund statement of net assets.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and affect the disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Special Assessments

The Commission collects special assessments from adjacent property owners for improvements to the local road systems. The assessments are a fixed amount of \$118,166 per year plus interest and expire in 2005.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY
Budgetary Procedures

Budgetary procedures are established pursuant to PA 621 of 1978, as amended, (MCL 141.421) which requires the County Board of Road Commissioners to approve a budget for the County Road Fund. The Road Commission's Chief Administrative Officer (manager) and fiscal officer prepare and submit a proposed operating budget to the Board of Road Commissioners for its review and consideration. The Board conducts a public budget hearing and subsequently adopts an operating budget. The Board has authorized the Chief Administrative Officer to amend the Road Commission budget when necessary, without increasing the overall budget, by transferring up to 25 percent from one line item to another. The operating fund budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements. All budgeted appropriations lapse at year end.

Budget Violations

Public Act 621 of 1978, as amended, requires budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

Expenditures that exceeded appropriations by material amounts are as follows:

	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Equipment Expense – Net	268,573	331,477	62,904
Debt Service:			
Principal	195,000	236,367	41,367
Interest	23,400	48,669	25,269

NOTE 3 - CASH AND DEPOSITS

The cash and investments are classified by GASB Statement No. 3 in the following categories:

Imprest Cash	\$ 250
Money Markets	540,575
Investments	<u>435,562</u>
Total Cash	<u>\$ 976,387</u>

NOTE 3 - CASH AND DEPOSITS (Continued)

Michigan Compiled Laws, Section 129.91, authorizes the Road Commission to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchased; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Road Commission has adopted the County's investment policy, which is in accordance with the provisions of Public Act 196 of 1997.

The risk disclosures for the Road Commission deposits, as required by the Governmental Accounting Standards Board (GASB) Statement No. 3, are as follows:

	<u>Carrying Amount</u>	<u>Financial Institution Balance</u>
Bank Deposits (Checking)	\$ _____ -	\$ <u>58,389</u>

The Road Commission's insured deposit amount results from the County Road Fund meeting certain specified criteria under FDIC regulations.

The risk disclosures for the Road Commission deposits (in regards to the checking account), as required by GASB Statement No. 3, are not available in that the Road Commission's cash deposits are part of the County's bank accounts. The Road Commission would receive its proportional share of insurance coverage. However, given the amount of the Road Commission's funds relative to the common bank account total, we estimate that \$58,389 of the Road Commission's fund to be substantially insured.

Investments

The Road commission's investments are composed of unrestricted funds and pension trust plan assets in mutual funds. The nature of mutual fund investments does not allow for risk categorization, which is in accordance with GASB statement No. 3. The pension trust investments are restricted for the future payment of benefits to retirees in accordance with the respective plan documents.

NOTE 4 - DEFERRED COMPENSATION PLAN

The Alcona County Road Commission offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (Alcona County Road Commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Alcona County Road Commission's financial statements.

NOTE 5 - CAPITAL ASSETS

Capital asset activity of the Alcona County Road Commission for the current year was as follows:

	Beginning Balances 01/01/04	Additions	Adjustments/ Deductions	Ending Balances 12/31/04
Capital Assets Not Being Depreciated				
Land	\$ 91,689	\$ -	\$ -	\$ 91,689
Land Improvements - Infrastructure	-	617,856	-	617,856
Subtotal	91,689	617,856	-	709,545
Capital Assets Being Depreciated				
Land Improvements	65,691	-	-	65,691
Buildings	646,682	6,745	-	653,427
Road Equipment	4,305,259	179,277	128,337	4,356,199
Shop Equipment	102,039	-	47,135	54,904
Office Equipment	91,907	1,931	-	93,838
Engineers' Equipment	16,193	1,459	-	17,652
Depletable	95,995	-	-	95,995
Infrastructure - Bridge	-	-	-	-
Infrastructure - Roads	-	869,286	-	869,286
Subtotal	5,323,766	1,058,698	175,472	6,206,992

NOTE 5 - CAPITAL ASSETS (Continued)

	Beginning Balances 01/01/04	Additions	Adjustments/ Deductions	Ending Balances 12/31/04
Less Accumulated Depreciation				
Land Improvements	45,618	20,072	-	65,690
Buildings	325,602	33,310	-	358,912
Road Equipment	2,938,516	496,667	118,629	3,316,554
Shop Equipment	79,133	3,217	36,650	45,700
Office Equipment	72,977	6,577	-	79,554
Engineers' Equipment	13,755	702	-	14,457
Depletable	95,995	-	-	95,995
Infrastructure - Bridges	-	-	-	-
Infrastructure - Roads	-	-	-	-
Subtotal	<u>3,571,596</u>	<u>560,545</u>	<u>155,279</u>	<u>3,976,862</u>
Net Capital Assets Being Depreciated	<u>1,752,170</u>	<u>498,153</u>	<u>20,193</u>	<u>2,230,130</u>
Total Net Capital Assets	<u>\$ 1,843,859</u>	<u>\$ 1,116,009</u>	<u>\$ 20,193</u>	<u>\$ 2,939,675</u>

Depreciation expense as charged to operations of the Alcona County Road Commission as follows:

Primary Road - Maintenance	\$ -
Local Road - Maintenance	-
Equipment	496,667
Administrative	7,279
Allocated	<u>56,599</u>
Total Depreciation Expense	<u>\$ 560,545</u>

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFITS

The Alcona County Road Commission contributes to the Alcona County Road Commission Retirement Plan, which is a defined contribution pension plan, fully funded through American Funds. The Board of Road Commissioners is the trustee of the plan and therefore the activity of the plan is presented as a pension trust fund.

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT (Continued)

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participant's benefits that may be allocated to such participant's account. Contributions made by the Road Commission are vested at 100% immediately. The Road Commission is required to contribute an amount equal to 4% of the employee's gross earnings. Employees are not required to make contributions. The Road commission made contributions in 2004 totaling \$44,536 based on employee wages of \$1,112,024. There are currently 32 employees included in the plan.

The Alcona County Road Commission Retirement Plan held no securities in or loans to parties related to the plan.

The financial information for the pension plan was available through the American Funds annual statement as of December 31, 2004 for presentation in the basic financial statements. A summary of the activity in the plan is as follows (at fair value).

Balance, January 1, 2004	\$	759,465
Contributions		44,536
Withdrawals		(74,125)
Change in value, including dividend and capital gain reinvestments and fees		<u>72,005</u>
Balance, December 31, 2004	\$	<u><u>801,881</u></u>

NOTE 7 - FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that all road commissions report all federal and state grants pertaining to their county. During the year ended December 31, 2004, the federal aid received and expended by the Road Commission was \$197,901 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (included in MDOT's single audit). Local force account projects are projects where the road commission performs the work and would be subject to single audit requirements if they expended \$500,000 or more.

NOTE 8 - LONG-TERM DEBT

The follow is a summary of pertinent information concerning the County Road Commission's long-term debt.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
BONDS PAYABLE:					
Michigan Transportation Fund Bonds Payable – Series 2001, principal due in variable annual installments, variable semi- annual interest payments at rate of 4.0% to 4.25%, due August 2006.	\$ 585,000	\$ -	\$ 195,000	\$ 390,000	\$ 195,000
NOTES PAYABLE:					
Installment payable to Finance Company, 3.76% interest rate, payable in monthly installments of \$1,363, secured by equipment.	141,652	-	10,519	131,133	11,743
Installment payable to Finance Company, 3.5% interest rate, payable in monthly installments of \$994, secured by equipment.	108,699	-	8,270	100,429	8,551
Installment payable to Finance Company, 5.56% interest rate, payable in monthly installments of \$1,607, secured by equipment.	165,180	-	10,777	154,403	11,178
Installment payable to Finance Company, 5.56% interest rate, payable in monthly installments of \$1,465 secured by equipment.	149,447	-	11,801	137,646	10,262
Vested Employee Benefits (1)	<u>226,772</u>	<u>13,115</u>	<u>-</u>	<u>239,887</u>	
TOTAL	<u>\$ 1,376,750</u>	<u>\$ 13,115</u>	<u>\$ 236,367</u>	<u>\$ 1,153,498</u>	

The employee policies regarding the accumulation and payment of vested employee benefits are as follows:

Vacation – Maximum carry-forward is 10 days each year. Unused vacation pay will be paid at current rates at date of employment separation. \$67,579 was accrued at year-end and recorded as a liability.

Sick Leave – A maximum of 114 days can be accumulated. Unused sick leave will be paid at current rates at date of separation to 75% upon retirement, 50% upon death, and 25% upon separation with 10 years seniority. \$172,308 was accrued at year-end.

NOTE 8 - LONG-TERM DEBT (Continued)

(1) The change in compensated absences is shown as a net addition.

Annual principal debt service requirements for the Notes Payable are as follows:

2005	41,734
2006	43,671
2007	45,700
2008	<u>392,506</u>
Total	<u>\$ 523,611</u>

Bonds Payable:	MTF Series 2001 Bonds		
	Principal	Interest	Total
2005	\$ 195,000	\$ 15,600	\$ 210,600
2006	<u>195,000</u>	<u>7,800</u>	<u>202,800</u>
Total Bonds Payable	<u>\$ 390,000</u>	<u>\$ 23,400</u>	<u>\$ 413,400</u>

NOTE 9 - POST EMPLOYMENT BENEFITS

In addition to the pension benefits, the County Road Commission provides post-employment health care insurance benefits to all retired employees by a group insurance plan. The benefits are provided in accordance with articles of the union agreement; and coverage is similar to current employee coverage. The Commission's obligation ceases upon retirement. The Commission submits payments to the health insurance provider for retiree premiums on a monthly basis. These premiums are reimbursed by the retiree in the following month.

NOTE 10 - STATE EQUIPMENT PURCHASE ADVANCE

State equipment purchase advance is determined by a formula applied to the book value of equipment of the previous fiscal year. This amount is adjusted each fiscal year in accordance with the formula and would be refunded to the State Department of Transportation upon termination of the State Highway Maintenance Contract. The amount of equipment advance for fiscal 2005 was \$223,726.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Grants - The Commission has received significant financial assistance from state and federal agencies in the form of various grants for specific projects and purposes. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Commission. In the opinion of management, any such disallowed claims may have a material effect on any of the financial statements included herein or on the overall financial position of the Commission at December 31, 2004.

Risk Management - The Road Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Road Commission was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The Road Commission joined together with other Road Commissions and created a public entity risk pool currently operating as a common risk management and insurance program. The Road Commission pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$1,000 for each insured event. The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The Road Commission is unable to provide an estimate of the amounts of additional assessments.

State Maintenance Audit – The Road Commission State Maintenance Agreements for 2003 and 2004, has yet to be “desk – audited” by the Michigan Department of Transportation in accordance with the contract. These audits may result in amounts owing to the Department; however, management does not believe these amounts will be significant.

NOTE 12 - SUBSEQUENT EVENTS

After fiscal year end, the Commission executed Rural Construction contracts in the amount of \$870,000 and authorized equipment purchases in the amount of \$140,000.

NOTE 13 - CHANGE IN ACCOUNTING PRINCIPLE

Effective January 1, 2004, the Road Commission implemented several new accounting standards issued by GASB:

Statement No. 33, Accounting and Financial Reporting for Non-Exchange Transactions, as amended by Statement No. 36, Recipient Reporting for Certain Shared Non-Exchange Revenues, which establishes standards for recording non-exchange transactions on the modified accrual and accrual basis of accounting.

NOTE 13 - CHANGE IN ACCOUNTING PRINCIPLE (Continued)

Statement No. 34, Basic Financial Statements- and Management's Discussion and Analysis – for State and Local Governments, as amended by Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments Omnibus, which established new financial reporting standards for state and local governments. This statement requires significant change in the financial reporting model used by local governments, eliminating account groups and utilizing full accrual basis of accounting and the economic resources measurement focus. Another significant change is the Management's Discussion and Analysis Section, which provides an overall analysis of the financial position and results of operations and conditions that could have significant effect on the financial position or results of operations.

Statement No. 38, Certain Financial Statement Note Disclosures, which requires certain note disclosures when implementing GASB Statement 34.

Required Supplemental Information

Alcona County Road Commission**Required Supplemental Information
Budgetary Comparison Schedule
Statement of Revenues – Budget and Actual
For the Year Ended December 31, 2004**

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Licenses and Permits				
Permits	\$ 16,000	\$ 20,500	\$ 17,211	\$ (3,289)
Federal Sources				
Surface Transportation Program	242,000	196,390	197,901	1,511
State Sources				
Michigan Transportation Fund	2,454,500	2,621,200	2,619,121	(2,079)
Contributions from Local Units	503,500	596,240	615,773	19,533
Charges for Services	471,000	491,000	553,230	62,230
Interest and Rents	10,000	8,000	15,227	7,227
Other Revenue	<u>94,000</u>	<u>88,000</u>	<u>90,754</u>	<u>2,754</u>
Total Revenue	<u>\$ 3,791,000</u>	<u>\$ 4,021,330</u>	<u>\$ 4,109,217</u>	<u>\$ 87,887</u>

Alcona County Road Commission

Required Supplemental Information Budgetary Comparison Schedule Statement of Expenditures – Budget and Actual For the Year Ended December 31, 2004

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Primary Road				
Heave Maintenance	\$ 850,000	\$ 1,004,000	\$ 984,931	\$ 19,069
Maintenance	650,000	796,800	726,951	69,849
Local Road				
Heavy Maintenance	550,000	503,000	506,413	(3,413)
Maintenance	910,000	960,000	940,104	19,896
State Trunkline				
Maintenance	470,000	559,000	547,581	11,419
Equipment Expense – Net	255,365	268,573	331,477	(62,904)
Administrative Expense – Net	315,500	286,424	272,134	14,290
Capital Outlay – Net	(89,400)	(125,723)	(391,326)	265,603
Other	-	275	-	275
Debt Service				
Principal	460,000	195,000	236,367	(41,367)
Interest	<u>43,000</u>	<u>23,400</u>	<u>48,669</u>	<u>(25,269)</u>
Total Expenditures	4,414,465	4,470,749	<u>\$ 4,203,301</u>	<u>\$ 267,448</u>
Fund Balance – January 1, 2004	<u>1,286,882</u>	<u>1,286,882</u>		
Total Budget	<u>\$ 5,701,347</u>	<u>\$ 5,757,631</u>		

Alcona County Road Commission

Analysis of Changes in Fund Balances For the Year Ended December 31, 2004

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 2,038,326	\$ 1,489,648	\$ 581,243	\$ 4,109,217
Total Expenditures	<u>1,770,261</u>	<u>1,809,721</u>	<u>623,319</u>	<u>4,203,301</u>
Excess of Revenues Over (Under) Expenditures	268,065	(320,073)	(42,076)	(94,084)
Other Financing Sources (Uses)				
Optional Transfers In (Out)	<u>(320,073)</u>	<u>320,073</u>	<u>-</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(52,008)	-	(42,076)	(94,084)
Fund Balance – January 1, 2004	<u>807,820</u>	<u>-</u>	<u>479,062</u>	<u>1,286,882</u>
Fund Balance – December 31, 2004	<u>\$ 755,812</u>	<u>\$ -</u>	<u>\$ 436,986</u>	<u>\$ 1,192,798</u>

Alcona County Road Commission

Analysis of Revenues For the Year Ended December 31, 2004

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Licenses and Permits	\$ -	\$ -	\$ 17,211	\$ 17,211
Federal Sources				
Surface Transportation Program	197,901	-	-	197,901
State Sources				
Michigan Transportation Fund				
Engineering	6,003	3,997	-	10,000
Urban Road	26,792	8,837	-	35,629
Allocation	1,532,346	1,020,085	-	2,552,431
Snow Removal	21,061	-	-	21,061
Contributions from Local Units				
Township	260,446	355,327	-	615,773
Charges for Services				
State Trunkline Maintenance	-	-	547,581	547,581
Salvage Sales	-	-	3,944	3,944
Other	-	-	1,705	1,705
Interest and Rents	5,503	1,250	8,474	15,227
Other Revenue				
Special Assessments	-	100,185	-	100,185
Loss on Disposals	(11,726)	(33)	(1,407)	(13,166)
Miscellaneous	-	-	3,735	3,735
Total Revenue	<u>\$ 2,038,326</u>	<u>\$ 1,489,648</u>	<u>\$ 581,243</u>	<u>\$ 4,109,217</u>

Alcona County Road Commission

Analysis of Expenditures For the Year Ended December 31, 2004

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Heavy Maintenance	\$ 984,931	\$ -	\$ -	\$ 984,931
Maintenance	726,951	-	-	726,951
Local Road				
Heavy Maintenance	-	506,413	-	506,413
Maintenance	-	940,104	-	940,104
State Trunkline Maintenance	-	-	547,581	547,581
Equipment Expense – Net	102,625	145,485	83,367	331,477
Administrative Expense – Net	147,499	124,635	-	272,134
Capital Outlay – Net	(348,515)	(978)	(41,833)	(391,326)
Debt Service				
Debt Principal Payments	130,002	78,001	28,364	236,367
Interest Expense	<u>26,768</u>	<u>16,061</u>	<u>5,840</u>	<u>48,669</u>
Total Expenditures	<u>\$ 1,770,261</u>	<u>\$ 1,809,721</u>	<u>\$ 623,319</u>	<u>\$ 4,203,301</u>

Report on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMA, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of County Road Commissioners
Alcona County Road Commission
301 N. Lake Street
Lincoln, Michigan 48742

We have audited the financial statements of the governmental activities and major fund of the Alcona County Road Commission as of and for the year ended December 31, 2004, which collectively comprise the Alcona County Road Commission's basic financial statements and have issued our report thereon dated June 23, 2005. We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Alcona County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Alcona County Road Commission's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as item 04-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Alcona County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, as listed in the accompanying Schedule of Findings as item 04-2.

This report is intended solely for the information and use of management, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

June 23, 2005

FINDING – FINANCIAL STATEMENT AUDIT

Reportable Conditions – Internal Control

Segregation of Duties

Finding 04-1

Statement of Condition/Criteria: The Road Clerk performs several functions of receipting disbursing and posting to the general ledger. To provide a system of checks and balances, these functions are generally assigned to separate positions to minimize the potential for unauthorized transactions.

Effect: Lack of segregation of duties provides opportunities for inaccurate or unauthorized disbursements or transfers from road funds and increases the potential for inaccurate reporting of account activity.

Cause of Condition: Sufficient resources and staff are not available to adequately segregate these functions. Additionally, the benefit of separating these duties does not appear to exceed the costs associated with the added personnel.

Recommendation: The Board should be aware of the potential weaknesses in the system and provide appropriate oversight or assistance to personnel when cost beneficial.

Management's Response: The board has implemented compensating controls to reduce the risks discussed above.

NONCOMPLIANCE WITH STATE STATUTES

Expenditures in Excess of Appropriations—Budgetary Funds

Finding 04-2

Condition: Our examination of procedures used by the county road to adopt and maintain operating budgets for the county road's budgetary fund revealed the following instances of noncompliance with the provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act.

The Commission's 2004 General Appropriations Act (budget) provided for expenditures of the General Fund to be controlled to the activity level. As detailed, actual 2004 expenditures exceeded the board's approved budget allocations for some general fund activities.

During the fiscal year ended December 31, 2004, expenditures were incurred in excess of amounts appropriated in the amended budgets for the General Fund as listed on page 31 of the financial statements.

Criteria: The expenditures of funds in excess of appropriations is contrary to the provisions of Section 16 of Public Act 2 of 1968, as amended.

NONCOMPLIANCE WITH STATE STATUTES (Continued)

Recommendation: We recommend that the county road's chief administrative officer (manager) and personnel responsible for administering the activities of the various funds of the county road, develop budgetary control procedures for the General Fund which will assure that expenditures do not exceed amounts authorized in the General Appropriations Act, or amendments thereof.

Management's Response—Corrective Action Plan: Management has agreed to correct the problem by monitoring the budgets more closely and performing budget amendments on a timely basis.

Alcona County Road Commission**Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2004**

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Project Number	Federal Expenditures
U.S. Department of Transportation:				
Pass-Through Programs from the State of Michigan Department of Transportation (MDOT)				
Hubbard Lake Road to M-72 to Ritchie	20.205	MG 0201(308)	72316	\$ 7,447
Trask Lake Road	20.205	STP 0401(306)	74240	<u>190,454</u>
Subtotal MDOT Administered				<u>197,901</u>
Total U.S. Department of Transportation:				<u>197,901</u>
Total Expenditures of Federal Awards				<u><u>\$ 197,901</u></u>



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMA, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

REPORT TO MANAGEMENT

Members of the Board
Alcona County Road Commission
Lincoln, MI 48742

We have audited the financial statements of the Alcona County Road Commission for the year ended December 31, 2004, and have issued our reports thereon dated June 23, 2005. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Alcona County Road Commission. Such considerations were solely for the purpose of determining audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Alcona County Road Commission's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

In planning and performing our audit of the financial statements, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management to the financial statements.

Reportable conditions:

- 1) Lack of segregation of duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above.

Significant Accounting Policies

Management is responsible for the selection of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management of the appropriateness of the accounting policies and their application. The significant accounting policies used by the Alcona County Road Commission are described in Note 1. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by the Alcona County Road Commission during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus. The Commission did implement provisions of GASB Statement #34 during the fiscal 2004.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements was depreciation expense and infrastructure costs.

Management's estimate of the capital asset amounts is based on Treasury Bulletins. We evaluated the key factors and assumptions used to develop the amounts in determining that it is reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Alcona County Road Commission's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Alcona County Road Commission, either individually or in the aggregate, indicate matters that could have a significant effect on the Alcona County Road Commission's financial reporting process.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether significant or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Alcona County Road Commission or a determination of the type of auditor's opinion to be expressed on those statements, our professional standards require the consulting accountant to advise us as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Alcona County Road Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

Comments and Recommendations

Special Assessments: (Prior)

Annually amounts should be reconciled to the Townships/County regarding the amount of special assessments paid and for which period. Additionally, the County Treasurer should be requested to provide amounts for special assessments and interest charges separately.

Status: Corrected.

Fuel Inventory: (Prior)

At year end the fuel inventory accounts had negative balances. This was due to a lack of posting of invoices for the fiscal year. Although the amount is not significant, all inventory posting of invoices should be posted before closing.

Status: Corrected.

Vested Sick Calculation: (Prior)

Provisions related to the implementation of GASB Statement #34 require that only vested sick pay be recorded. This will require the Commission to calculate and record future sick pay liabilities at the vesting schedule indicated in the union contract based on termination, death or seniority.

Expenditure Authorizations: (Prior)

Some disbursements of the Commission do not indicate the authorizer/reviewer of the transaction (sales tax, certain payroll transactions). Although all expenditures are approved by the Board, the system should require that all expenditures indicate payment approval by initialing support documentation.

Infrastructure Reporting: (Prior)

The Commission should adopt a capitalization threshold for recording infrastructure amounts of \$5,000 or \$10,000 in accordance with GASB requirements. Additionally, the Commission should consider amending timecard categories to assist in the accumulation of infrastructure costs and classification.

Status: The Board anticipates adopting a policy to address this issue in 2005.

Inventory Status Report

The inventory status report for some items does not reflect accurate quantity and per unit costs as indicated in manual support records. The software is designed to automatically calculate quantities and per unit cost rates to assure proper allocations of costs without manual adjustments.

Status: The software vendor had been informed of this issue.

Payroll

During our review of payroll and employee documents, it was noted that the policy acknowledgement form was not signed by two employees. The policy acknowledgement form assures the employee agrees and understands the employment practices of the Commission. The required signatures should be obtained.

The Board should consider having the employees update Form W-4 – Federal Withholding Authorization for 2005. Several tax laws have changed, which affect federal income tax withholding.

Conclusion

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of assistance, please contact us.

This information is intended solely for the use of the Alcona County Road Commission, the cognizant audit agencies and other federal and state agencies, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in blue ink that reads "Anderson Tackman & Co. PLC".

Anderson, Tackman & Company, PLC
Certified Public Accountants

June 23, 2005